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KOSOVO

CLUSTER AND BUSINESS SUPPORT PROJECT

KOSOVO AT THE CROSSROADS

The Private-Public Dialog on The Future of Kosovo's Business Environment

Contract #AFP-I-00-03-00030-00, TO# 800

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USAID/Kosovo
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August 2005

This publication was produced for review by the United States Agency for International Development. It was prepared by the KCBS team of Chemonics International Inc. based on a Final Report prepared by Short Term Technical Advisor, Mr. Bruce Butterfield.

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

PURPOSE OF ASSIGNMENT

The primary responsibility of the Strategic Planning Specialist was to use the Foresight model to create the scenario process needed to provide an unbiased context for the subsequent Public-Private Dialog held in Lake Ohrid June 20 to 22, 2005. The Dialog Conference, entitled *Kosovo at the Crossroads* underscoring Kosovo's current place in several decision paths, engaged 57 representatives of the public, private, and nonprofit sectors, including KCBS business associations and donor agencies. Through this open forum the attendees were to identify solutions to the constraints to business formation and expansion targeted by KCBS's *Constraint Study* and create mechanisms to implement them.

The scenario process, which allows policy makers and business planners to look beyond the limitations of existing conditions and structures and work back from the perspective of alternative futures, is especially attractive in the current Kosovar environment as the problems currently facing local businesses, foreign investors, and policymakers are too many, too overwhelming, and too steeped in emotional and personal opinion to allow objective discussions based on the present state. (A detailed explanation of the scenario process appears in scenario report in Annex I). The Strategic Planning Specialist, and Richard O'Sullivan, the Senior Competitiveness and Association Advisor, worked closely to develop scenarios of alternative futures that provided a catalyst for discussions to identify and undertake immediate actions to expedite business growth with and/or without government involvement. The Strategic Planning Specialist served as the initial facilitator for Public-Private Dialog sessions and as an advisor to the Constraint Task Groups through the first week.

BACKGROUND

The first deliverable of the KCBS project was a *Constraint Study* that identified five constraints to business formation and expansion. They are:

1. Development, implementation, and defense of industry standards
2. Access to capital
3. Fiscal policies inconsistent and incompatible with development goals
4. Lack of technical competence in targeted clusters
5. Dysfunctional association environment

That these problems headed any short-list of public policy issues surprised no one. What was missing was not the ability of the private sector to correctly identify problems, nor to build consensus on their relative importance, but a mechanism through which it could effectively address them in partnership with local, central, and UNMIK government agencies. KCBS determined that next step was to initiate and support a Public-Private Dialog. The Dialog would consider effective, short-term public policies, private sector activities, and civil society programs that can address these issues.

In subsequent conversations with key stakeholders KCBS identified 11 government agencies, 13 associations and nonprofit organizations, and six donor programs that would or should participate in this dialog. However, the magnitude of the problems being addressed was so significant that decision-makers were often paralyzed by them. In our several strategic planning activities with association and business leaders KCBS found discussions often broke down completely due to an inability to move past specific barriers, especially standards development and fiscal policy. Too often, KCBS staff members were told by

association board members, business leaders, and public officials that they could not make decisions until some unrelated problem was resolved. Business owners could not make their plans until VAT issues were addressed, the problems with KEK were resolved, product or process standards were mandated, access to credit improved or some other issues solved. The scenario process forces participants to work through these ambiguities and determine what can be done regardless of the resolution of such unknowns.

Additionally, there are several change agents in play that will redefine the future Kosovar environment in ways fundamentally different from that of today. The accelerated reduction in donor assistance, which has already been halved in recent years, the development of liberalized trade conditions, the shift in governance and fiscal responsibilities from UNMIK to the PISG, the adoption of EU standards, and radical reform of key industries – such as banking, electricity, and health – will singularly and collectively reshape the economic environment in ways that would be unrecognizable today. One cannot look at current conditions and prepare for such events.

A final element standing in the way of objective planning in Kosovo is the emotional appeal of certain outcomes that prevent decision makers from considering alternatives. The most obvious one in Kosovo is the nature of final status, specifically independence. Proponents are so emotionally tied to independence that plans that exclude it are not considered. Opponents of independence, in turn, refuse to discuss plans that include independence as an outcome. One of the goals of the scenario process is to create a nonconfrontational decision-making process through which policymakers can cope effectively with both desirable and unpleasant future outcomes in a neutral environment.

An increasingly popular solution to such an impasse is to present decision makers with several presumptive futures and allow them to develop strategies to cope with undesirable futures. In an issue of *Development* magazine entirely dedicated to the growing role that scenarios play in economic development, Arden Brummel wrote that “scenarios development is designed to stimulate dialogue and build relations between policymakers, foreign investors and society leaders in developing countries to find new solutions.”

KCBS was convinced that this process, through which participants are encouraged to “suspend disbelief” and envision a future Kosovo with both desirable and undesirable outcomes, would be the most productive way to jump start the dialog, build common ground for both public and private stakeholders, move past the political and social roadblocks that were preventing partnerships from evolving.

KCBS engaged a Strategic Planning consultant to develop credible alternative futures for Kosovo for the year 2010. Typically, scenarios that look out more than five years increase the potential for “wild cards” that challenge the reliability and effectiveness of plans based on them.

EXECUTIVE SUMMARY

The Kosovo Cluster and Business Support Project (KCBS) committed itself from its inception to creating a private-public dialog to shift the relationship between the public and private sectors from one of public confrontation and opposition coupled with personal contacts behind the scenes to a more transparent give-and-take based dialog in which facts, not contacts, drive decisions. The private sector is now on the cusp of its next level of maturity, which demands that it start to function as an equal partner with the public sector in defining the business environment by breaking the patron-client relationship that slows innovation, discourages independent activity, and promotes the “state capture” that fosters corruption and crony capitalism.

The first step in developing this new relationship is to create a private-public dialog that engages leaders of both sectors as equals. USAID partnered with the Association of Kosovo Businesses (AKB) to host 57 representatives from the private, public, nonprofit, and donor communities at a Public-Private Dialog on June 20-22 in Lake Ohrid. KCBS facilitated this conference with the assistance of Strategic Planning Specialist Bruce Butterfield. All the organizations/participants were selected because of the crucial role they will play in creating that environment.

The conference examined four different outcomes for Kosovo written from the perspective of the year 2010 with an eye as to how Kosovo's business environment would evolve under each outcome. Background on the scenario process and narratives describing the four futures used in Ohrid appear in Annex I. Through working groups assigned to each future, conference participants identified what policies, institutions (public and private), and business capacities would be needed for the kinds of businesses that would emerge in the next five years in each of the futures to which attendees had been assigned.

At the end of the conference the groups reconvened as a whole to identify which issues were common to all four futures from which consensus strategies targeting specific public policies and private investments could be developed to assure a healthy future for Kosovar businesses. These were:

- Education
- Tax Rationalization
- Infrastructure Development
- Quality Standards Adoption and Enforcement
- Banking/Financial Sector Reform
- Transparency/Rule of Law/Court Reform

The group was tasked to build a process through which ministries, the private sector, and the donor community can work together to achieve those goals. A task group for each issue was established and each was charged with the mission to use the scenarios distributed at Lake Ohrid to identify priorities of issues common to all four futures and propose roles for public and private sectors and opportunities for public-private partnerships within a fixed timeframe (less than four months).

FIELD ACTIVITIES TO ACHIEVE PURPOSES

Data collection and Scenario Development

With the assistance of KCBS staff and building on the work of the *Constraints Study*, Mr. Butterfield conducted the field research necessary to develop a set of four scenarios to be used both by the Public-Private Dialog. By meeting with numerous stakeholders and policymakers in Kosovo and surrounding countries, the consultant identified the key trade-offs that could shape Kosovo's future, and proposed the most crucial to the Senior Competitiveness and Association Advisor, the Chief of Party, and senior cluster team leaders, and senior USAID staff. In fact, we credit USAID's Neil Boyle with identifying one of the two major trade-offs around which the scenarios were written. A list of those interviewed during the two-week field research appears in Annex II.

Scenario Planning Workshops

As the scenario process was new to many in Kosovo, the consultant also prepared a workshop on the scenario process in particular, and the Foresight model specifically using examples in policymaking, investment/capital decisions, and civil society development in transitional, developed, and developing markets. The workshop was presented to KCBS staff, USAID, and key participants in the Public-Private Dialog. The purpose of this workshop was both to engage practitioners in the research and to prepare them to participate in the Public-Private Dialog. A copy of the presentation is in Annex III.

In addition, the consultant conducted a "Dress Rehearsal" for KCBS and USAID staff. This dress rehearsal served two purposes. The first was to familiarize the attendees with the scenario process and identify any issues that needed to be handled with discretion. The second was to train KCBS staff to function as facilitators for the working groups at the Ohrid Conference.

Public-Private Dialog

Based on the research and field interviews, KCBS constructed four potential future scenarios for the Public-Private Dialog, which were distributed only to those confirmed to attend the Ohrid Conference. These scenarios became the focus for the Ohrid Conference and backdrop for the initial task group meetings in July. Mr. Butterfield, and Mr. O'Sullivan facilitated the opening sessions and assisted the facilitators applying the scenarios during the work groups at the Conference.

TASK FINDINGS AND RECOMMENDATIONS

Task 1 — Field research on key trade-offs facing Kosovo over the next three years

Using the STEP paradigm, the field research sought to identify the **S**ocio-demographic, **T**echnological, **E**conomic, and **P**olitical drivers of Kosovo's future. In unstructured interviews designed to elicit the broadest range of opinions and allow the interviewees to set the priorities of the conversations, the Strategic Planning Specialist met with leaders in the business community and their associations, the PISG, UNMIK, and donor agencies. This research was complemented with additional interviews and secondary research with international organizations in Washington, DC. One of the outcomes of those conversations was the decision to extend the horizon of the scenarios from three to five years. All narratives were written from the perspective of the year 2010.

The list of issues identified through the field research can be found in the report in Annex I.

Findings/Recommendations — *Perhaps the most important finding from the field research was that many of what could be considered “hot button” issues that stall objective policy discussions were in the end important but not critical to Kosovo's future. The most obvious was independence. The conclusion from the field research was that a defined final status was crucial to shaping Kosovo's future but how that future was defined proved far less important.*

We also learned from studying the roles of Disaporas in the development of other economies that the reliance many policymakers are placing on the Kosovar Diaspora may be misplaced or, at least, overemphasized.

Tasks 2 & 5 — Workshops on Scenario Planning/Dress Rehearsal

Both the workshops and the dress rehearsal went very well with the audiences proving both receptive and critical when required.

Findings/Recommendations— *The outcomes of these tasks gave us confidence that the actual Conference work would be less challenging than anticipated and that Kosovars were able to “suspend disbelief” as needed.*

Task 3 — Develop the Four Scenarios

Four assumptions were determined to be consistent with all four scenarios:

1. Donor support will continue to erode
2. The workforce will continue to grow faster than the labor market
3. Remittances will continue to decline
4. Consistent with the goals of the Stability Pact, some form of regional institutional framework will emerge before 2010

Findings/Recommendations — *See separate report in Annex I.*

Task 4 — Present the Scenarios to the Public-Private Dialog

The Ohrid Conference was extremely well attended despite some logistical problems, most caused by political sensitivities. Once there, however, the participants quickly adapted to the demands of the conference with most adjusting to the idea of working within the assigned future after the first working group meeting.

Findings/Recommendations— See annexes IV and V for detailed summaries of working group meetings.

A surprising, and confirming, finding from the session was how closely the conclusion of the participants mirrored the priorities identified in KCBS's Constraint Study. The participants identified six broad issues that the public and private sector need to address together. They are:

- 1. Quality Standards Development, Promotion, and Enforcement*
- 2. Stability of the Financial Sector*
- 3. Tax Rationalization*
- 4. Education*
- 5. Transparency*
- 6. Infrastructure Development*

By comparison, five key targets identified in the Constraint Study were:

- 1. A lack of clear and protected product standards*
- 2. Inadequate access to financing*
- 3. Tax and trade policies inconsistent with development objectives*
- 4. Common lack of experience and practical know-how*
- 5. Weak business and professional associations*

The Constraint Study and the Ohrid Conference shared the first four of these. The fifth, weak business and professional associations, was targeted, in part, due to a lack of transparency in existing government institutions and marketplace practices.

Task 6 — A final report to USAID and KCBS in the form of an article on how the scenarios were developed and the process of introducing scenario planning to the Kosovo environment

This document is the final report. Mr. Butterfield, along with KCBS and USAID staff, will determine what more specific topic should be selected for an article further publicizing the process as it was applied in Kosovo.

Findings/Recommendations— See *Conclusions and Recommendations for Future Activity*.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

Focus on the six issues

KCBS will support the six issues identified by the Ohrid Conference. A task group will be created for each and they will be assigned the task of identifying how the private and public sectors can work together to address the challenges and opportunities of each. As none of these could be actually resolved in the 100-day time span, the task groups should focus on capacity building and process design.

Coordinate with Others

The European Agency for Reconstruction (EAR), whose three-year planning retreat followed KCBS' Ohrid Conference, now publicly claims that KCBS's Ohrid Conference was "the foundation" for EAR's plan. Many of the issues raised at the Ohrid Conference were the subjects of breakout sessions at EAR's conference and were the subjects of the logical frameworks (log-frames) used to build its work plan. USAID, EAR, and the other donor agencies should continue to coordinate and cooperate in efforts to help the private sector accept greater responsibility for creating Kosovo's business environment itself rather than continue to wait for donor or government initiatives.

A Fundamental Change in Private and Public Roles is Possible and Practical

The obvious conclusion from the Scenario Process and the Ohrid Conference was that the time is right for the private sector, with the support of the donor community, to step out from under the traditional Patron-Client relationship that it has had with the public sector and become more self-directed. Both the private and public sector participants accepted this new role. Some of the comments KCBS received after the conference confirmed this.

- "This is the longest I have ever spent sitting down with private sector firms." (government ministry official)
- "I feel that for the first time we are sitting down with government ministries as equals." (business owner)
- "It was refreshing to think not about the government over here and business over there working separately but sitting down and working together." (ministry official)

A great comfort was found in the willingness of public officials to accept this new role. In fact, some of the PISG participants were more demanding of the private sector to accept the new responsibilities inherent in a more activist role than some of the private sector attendees.

How sustainable this new relationship can be will be evident in the performance of the Task Groups.

The Scenario Process Worked

Concerns that the scenario process would be too complicated or "inflammatory" to be effective in the current environment proved unwarranted. The participants were able to effectively work within the fictions of the futures after wrestling with the concepts for the first working group session. This is not unusual.

Once involved, the ease with which many attendees were willing to gore some of the sacred cows was actually surprising. Comments about the process from the attendees included:

- "You have taught us a new way of thinking." (Kosovo Chamber of Commerce)
- "You taught us how to look into the abyss and we need to do that to move forward." (donor agency)

However, the return to typical roles and positions on the final morning when we were bringing the conclusions back to the present underscored that the change USAID is prompting through the Private-Public Dialog will be iterative and probably subject to backsliding.

USAID, KCBS, and the other donor agencies need to create other opportunities for the private sector to take the lead in policy formation and implementation.

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Annex V Common Themes

ANNEX I

KOSOVO AT THE CROSSROADS

Alternative Future Scenarios for Business Development Strategies

A Working Paper for the Public-Private Dialog

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and Richard C. O'Sullivan
Senior Competitiveness and Association Advisor
For the Kosovo Cluster and Business Support (KCBS)

June 2005

KOSOVO AT THE CROSSROADS: Alternative Future Scenarios for Business Development Strategies

I don't forecast. I look out the window and identify what is visible but not yet seen

Peter Drucker, Management
Expert

As Kosovo prepares for its future, thinking often is stymied by the belief that obstacles must be overcome in a linear fashion, that something cannot happen until something else occurs – for example, the shape of the economy must wait for determination of final status or businesses cannot develop unless there is a consistent supply of electricity. To endeavor to get past such barricades, the Kosovo Cluster and Business Support (KCBS) has scheduled a public-private dialog on June 20-22, 2005 in Lake Ohrid, Macedonia to imagine how possible futures might play out and what to do about them.

When asked to think about the future, most people simply assume that tomorrow will look like today only more so. But there is no such thing as *the* future, at least not from the vantage point of today. There are multiple possible futures, and it is important to prepare for them now to avoid being unpleasantly surprised by events and scrambling to respond to them in a crisis.

THE PROCESS

Scenario Planning

One method for doing this is scenario planning, which uses drivers of change to create potential future worlds where planners can work at minimum risk. This methodology was initially developed by The Rand Corporation and refined by Royal Dutch Shell. It has been successfully used worldwide by companies, governments, and associations.

Scenarios are stories about the future told from a particular point in time and looking back to the present. Scenario planners work with them by adding their thinking about how the stories might evolve and then creating strategies that will advance desirable futures and prevent undesirable ones. While the real future will emerge from all of the scenarios and more, scenario planning helps leaders to move past barriers and, as the Drucker quote above says, identify what is visible but not yet seen.

Scenario planning is an approach to strategy development and decision-making that acknowledges (and then structures) the inherent uncertainty in the public policy and business environment, and aims at achieving maximum feasible resilience in strategy. It is predicated on the fact that, in an uncertain environment, single-point forecasts (which most leaders tend to rely on) are inherently inaccurate and strategies based on them will almost certainly be misdirected. This is especially true for environments like Kosovo that are primarily driven by

public policy where reality can literally change with the stroke of a pen, often in a distant foreign capital.

At the public-private dialog, participants will be asked to enrich the scenarios with their own thinking in order to make them more precise and useful. Using the scenarios, they will be asked to address such questions as:

- What consumer and business markets emerge in each future?
- What kinds of businesses will evolve to serve those markets?
 - Large or small? Traditional industries or new kinds of ventures?
 - Locally financed or internationally supported?
- What kinds of infrastructure support will these businesses need?
 - From the government? From the private sector? From the nonprofit sector?
- What new problems begin to emerge that we currently do not face?
- How should those problems be addressed?
- What kinds of strategies can be developed to encourage positive developments and head off negative ones?
 - Can those strategies work in more than one scenario?

Think Outside the Box? What Box?

Scenarios are not predictions: they are carefully structured descriptions of alternative possible futures. They are not just variations around a base case: they are significantly, often structurally, different views of the future. And they are not generalized views of feared or desired futures: they are specific "decision-focused" views of the future. The benefits of scenario planning, properly conceived and executed, are that the scenarios provide

- a more thorough understanding of the dynamics of change,
- better consideration of the full range of opportunities and threats,
- reduced vulnerability to surprises,
- more resilient, flexible strategy,
- better assessment of risks.

Scenarios, therefore, closely examine what forecasts take for granted, the structural drivers that determine trends in the first place. The paradigm for explaining individual and organizational behavior is: Structure → Conduct → Performance. Organizational structures create the rigidities that guide conduct and hence make market performance predictable. The scenario process examines how changes in the underlying structure can play out into radically different behaviors.

The KCBS public-private dialog has two major purposes: to enable leaders to envision future environments for Kosovo business development and to train them in using a tool that can be applied in many different situations. In other words, the point of scenarios is better decision making.

Scenario Principles

There are two principles required for scenario planning to work

- planners must agree that the scenario stories are only plausible, not probable, and
- they must be willing to suspend disbelief when confronted by stories that challenge their current thinking.

The word “never” should not be used when developing and working with scenarios. For example, people once thought that the Cold War would *never* end, that the Soviet Union would *never* collapse, that the United States would *never* be attacked, and that the Internet would *never* be anything but a fad.

Creating Scenarios

Clues to possible futures are plentiful right now. The characteristics of tomorrow are observable today. For example:

- *The rise of the European Union and its alternative development approach with more active government involvement.*
- *The emergence of truly global, as opposed to international, associations that put business interests ahead of nationalistic agendas.*
- *The expansion of the AIDS epidemic to Asia and the potential drain that may place on development resources and enterprise promotion.*
- *The potential breakdown of UN institutions such as the WHO, the ILO, and ISO, in promoting global markets and raising standards of living.*
- *The shift in economic and political power in Asia from Japan to China and the consequences for private enterprise development.*

Focus the Conversation

Because there are unlimited possible combinations of the effects of facts and trends, scenarios usually are limited to a manageable number – two to four, with four being ideal for richness and nuance. Two scenarios lead to a best case/worst case, either/or type of approach, which is limiting. Three scenarios lead to a best case/worst case/most likely approach that encourages planners to take the easy and familiar “most likely” path. More than four scenarios are unmanageable and often lack sufficient contrast to be useful.

For the public-private dialog, we will work with four scenarios created by the intersection of two drivers of change – the pathway to status (defined or unclear) and the means of economic development (public sector or private sector). These drivers were selected from a list of many possibilities gleaned from interviews and research conducted by KCBS consultant Bruce Butterfield, president, The Forbes Group, Fairfax, VA, in April and May 2005. Each driver has opposing outcomes that have a reasonable chance of occurring. Potential drivers were categorized by whether they were societal, technological, economic or political. They then were analyzed against the Structure → Conduct → Performance paradigm described earlier. As a result, many were consolidated or subordinated to others. In the end, the two

chosen drivers surfaced as major structural drivers that would affect business development.

While the list of potential drivers was long, it was not exhaustive. Clearly there could be many more drivers and others could be chosen from the list. The list of potential drivers included:

Society

- Minority rights protected vs. minority rights lacking
- Diaspora accelerates vs. Diaspora returns
- Ethnic tensions increase vs. ethnic tensions decrease
- Birthrate escalates vs. birthrate stabilizes
- Corruption declines vs. corruption increases
- Vocational education advances vs. vocational education lags
- Peace vs. conflict

Technology

- Energy infrastructure is rehabilitated vs. energy infrastructure crumbles
- Product and practice standards developed and protected vs. standards never achieved

Economics

- Regionalization stalls vs. regionalization becomes reality
- Special trade status vs. EU admission
- Unemployment below 35% vs. unemployment above 35%
- Economic self-sufficiency vs. economic dependence
- Tax collections rise vs. tax collections stagnate
- Internal financing vs. external financing
- Donor-driven development vs. investor-driven development
- Diaspora invests vs. Diaspora fades away
- Privatization is expeditious vs. privatization drags on

Politics

- Independence vs. protectorate
- UNMIK vs. EUMIK
- PISG is functional vs. PISG is nonfunctional
- Serbia retains Kosovo vs. Serbia relinquishes Kosovo
- Property rights resolved vs. property rights murky
- Rule of law prevails vs. rule of law fails
- Court system is functional vs. court system is nonfunctional

Scenarios can project far out into the future, fifteen years or more. Long-term projections are

essential for longer-term investments such as factory locations, hospitals and road building. But scenario building takes practice and long future projections can be difficult. Longer-term scenarios risk playing guessing games and injecting “wildcards,” which are unexpected events that disrupt the scenarios. But many of the problems facing Kosovo are within and

around the Balkans’ membership and events are moving quickly. For purposes this exercise, we will limit our scenarios to the next five years, to 2010.

Scenarios also are three dimensional. Like the Rubik’s Cube puzzle that was popular years ago with its movable facets, scenarios can be changed by changing assumptions, drivers or the facts and trends chosen to describe them. In fact, scenarios are not static. Once developed, they need to be constantly refreshed as new facts and trends emerge, and the strategies that grow from them should be reviewed for continuing relevance and updated.

However, there are some assumptions that are common to the four Kosovo scenarios we have developed:

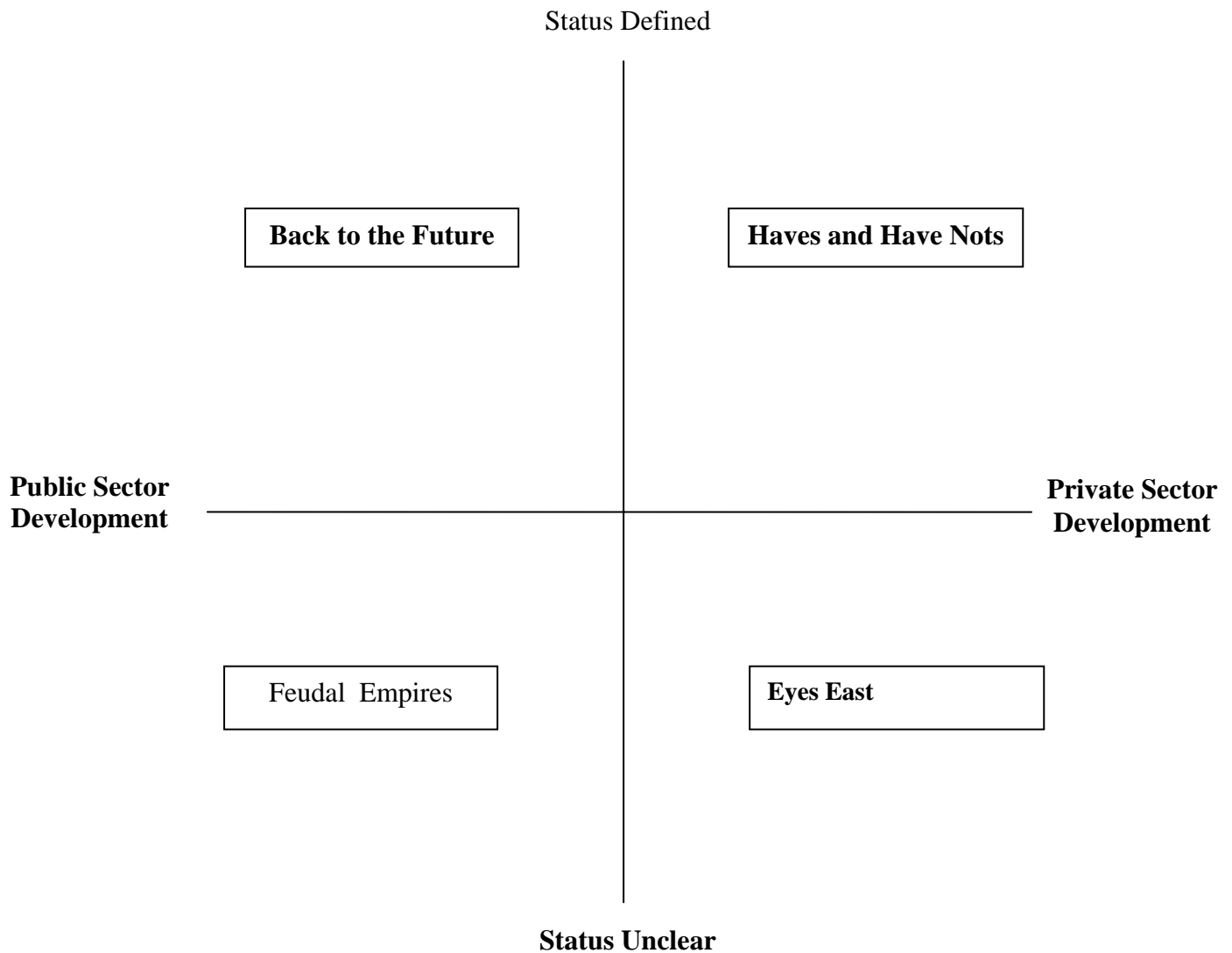
- donors are leaving
- remittances are declining
- the labor force is growing faster than the job market and
- some form of regional economy has emerged

THE KOSOVO SCENARIOS

Scenario Summaries

Following is a graphic of the four future worlds that have been created and the stories about how they evolved.

KOSOVO ALTERNATIVE FUTURE SCENARIO MATRIX



In **Back to the Future**, status talks have led to transference of power from UNMIK to an EUMIK that is more willing to give the Kosovo government a bigger hand to play. However, the response is government trumping private initiative through more centralized control. The nervous banking sector consolidates and weakens drying up investment capital. Donors, UNMIK and EU take laissez-faire attitude and Kosovo's attempts to be market driven falter.

In **Haves and Have Nots**, Kosovo and Serbian leaders take bold steps at reconciliation that resonate with foreign investors. A public policy fast-track process is in place that has allowed court, tax and banking reform. Business development is underway and job creation is up, though still insufficient to solve unemployment problems. KEK is in private hands with new generating capacity and a hard line toward those who fail to pay their bills. Cadastral records have been released and property registration is well along. Travel restrictions have been eased by EU countries with significant Kosovar Diaspora and young people are being trained there under loans requiring their return to Kosovo.

In **Feudal Empires**, there is skepticism about status talks, but rising optimism in Kosovo after a rough beginning. In an effort to prove its ability to govern, Kosovo's government overreaches with laws that consolidate power in the ministries and restrict the private sector. An emerging regional economy turns its back on Kosovo as the government runs out of money and remains under UNMIK control, but with limited funding. In the vacuum, local governments grab power and favoritism rules. As status talks bog down, investors set their sights on other countries.

In **Eyes East**, status talks are stalemated by an EU pullback and a surprise entry into debate that changes the power equation. Kosovo's government is out of resources and the private sector turns to a regional network for brand protection. The regional economy grows supplanting the need for EU membership and, in fact, offering a conduit for EU companies to the expanding markets to the east.

KOSOVO ALTERNATIVE FUTURE SCENARIOS -- 2010

BACK TO THE FUTURE

Drivers: Status Defined – Public-Sector Development

After years of anticipation, status talks with UNMIK, PISG, the European Union and Serbia opened in October 2005 in Pristina's Grand Hotel under heavy security. Central to the discussion was the April 2005 proposal by the International Commission on the Balkans for a four-stage transition to sovereignty (1. separation from Serbia, 2. independence without full sovereignty, 3. guided sovereignty, 4. full and shared sovereignty [Kosovo in the EU]). In return for beginning stage one, Serbia was promised a fast-track entry into the EU before 2012.

The International Commission's declaration that the Serbian enclaves are "shameful symbols of the failure of the international community to secure basic rights and living conditions" resonated. So, inherent in the agreement to separate was assurance of protection of those in the enclaves and other minorities. While it was expected that KFOR would be on the ground during the entire ten-year transition process, mediators found a shortcut by adopting the principals of 2001 Ohrid Agreement, which provided for a unitary state with stronger and reformed municipal governments and enhanced minority rights. As a result, by 2010 KFOR withdrawals were nearly completed.

While buoyed by the initial progress of the talks, Kosovars remained skeptical that UNMIK would actually transfer governing responsibility on the road to sovereignty, but that skepticism proved unfounded as PISG and the EU assumed UNMIK's role by the end of 2006. By 2007, however, Kosovo appeared to have traded the monopoly of the UN for the monopoly of the EU and the provisional government became answerable to Brussels, whose annual production of 80,000 pages of regulations strained both public and business resources.

While UNMIK's approach to Kosovo was to protect it from itself, the new EU policy was "learn from your mistakes." Consequently, the EU took a hands-off stance, even when it felt that the provisional government was moving in the wrong direction. In response, emboldened ministries and parliament fueled the regulatory and legislative engine with a flurry of laws and rules. The Ministry of Trade and Industry instituted a government-managed licensing scheme for private-sector certifying organizations that was a prescription for corruption. The Ministry of Education resubmitted legislation to license all education and educators, including those in the private sector, which dampened fledgling efforts by trade and professional associations to create revenue-producing training programs that now were subject to political whim and bureaucratic logjams.

Frustrated by KEK's inability to collect its bills and rehabilitate its infrastructure, the government declared KEK a natural monopoly that was fully absorbed into the Ministry of Energy in 2007. The ministry decided to collect the electricity fees indirectly by imposing an energy tax on businesses according to their size and sector. With no incentive to conserve

electricity, power demands escalated, power outages increased and foreign direct investment in manufacturing stalled.

As a result, agriculture became the cornerstone of economic development. In an effort to bolster the agricultural sector, parliament passed restrictive trade laws whose intent was to balance trade in agricultural products by buying time for domestic producers. Few responded, however, because a new law allowing government seizure of privatized agricultural SOEs, whose use is deemed unacceptable to the Ministry of Agriculture, stifled potential new investment.

With economic uncertainty still a factor, the first forays of foreign direct investment in Kosovo were halting at best. But seeing opportunity, Greece-based Eurobank, a Swiss consortium, opened a private banking operation in 2006 in an effort to tap the high end of the financial assets held by Kosovars outside of financial institutions. This simply moved money from mattresses to secret accounts, both of which were outside the withholding tax that the government demanded that banks collect on deposits. This also set up the potential for money laundering schemes and leeching away of domestic assets for investment.

By 2007, all Kosovo-based banks had closed and only Eurobank, Raiffeisen Bank and ProCredit Bank remained. Like the Dutch banks had in Belgium, they offered new products, such as credit cards, but only for high-end customers. Alarmed by what it saw as the widening gap between haves and have nots, the government launched the state-owned Bank of Kosovo in late 2007 to offer micro-financing. By early 2008, ProCredit Bank had closed its doors, Raiffeisen Bank was shutting down operations and Eurobank was considering an exit strategy.

With formalization of status, the decline of donor assistance accelerated as the U.S., faced by security demands in the Middle East and the growing AIDS crisis in Asia, declared that it has fulfilled its obligations. By 2008, it had diminished its presence to token involvement in Kosovo. Because foreign direct investment did not offset the decline in donor activity, the provisional government appealed to the IMF for assistance that same year. Now borrowing, not investment or donor funding, was driving the Kosovo economy. But, as usual, the price for IMF's assistance was to demand tighter spending controls in exchange for its loans, and the Kosovo government found itself without the resources to administer the increased activity it had undertaken.

With status clarified by the early positive steps, members of the Kosovo Diaspora began a cautious return. However, with declining incentives to stay, they decamped taking their money and their relatives with them. Now, two of the three legs of development – donors and the Diaspora – have been amputated and the third leg, investment, is gangrenous.

HAVES AND HAVE NOTS

Drivers: Status Defined – Private-Sector Development

As plans solidified for the opening of Kosovo status talks in the fall of 2005, Kosovo Prime Minister Kosumi and Serbian Prime Minister Kostunica held an unprecedented first meeting in Prizen. A month later, Kosovo President Rugova, in a move reminiscent of Egyptian President Anwar Sadat's 1977 trip to Jerusalem, flew to Belgrade to meet with President Tadic. While the talks pointedly sidestepped the issue of status, they yielded an unprecedented agreement to form the Kosovo Reconciliation Commission, similar to the body created by Nelson Mandela in South Africa the aftermath of apartheid.

Announcement of the meetings and the commission was greeted by noisy and sometimes partisan demonstrations in Belgrade and Pristina, but these were soon cooled as leaders of both Kosovo and Serbia jointly called for calm and described the commission as crucial to showing progress toward the standards that would put them on the road to EU integration.

Although detailed status discussions were in their infancy in early 2006, the thawing of the relationship between the two former adversaries was enough to persuade European and American investors, who had been waiting in the wings for a positive sign, to begin seeking out opportunities. Investors were further emboldened by deregulation initiatives, similar to the Bosnian Bulldozer, which eliminated many of the constraints on investment and new business formation. Using a taxonomy demonstrated in countries like The Czech Republic and Slovenia, the group first targeted the court system, the tax system, trade barriers and financial deregulation for attention by the end of 2006.

The two principal outcomes of the court reform initiative were to assure returnees' safety, fair adjudication of claims and to offer a means of redress through a small claims court for business disputes. Following that was installation of a system of highly targeted countervailing duties against the worst offenders in lieu of Draconian tariffs that had been demanded by some farmers and agricultural producers. The next step was to shift the emphasis of fiscal impact from border to internal taxes. Finally, banking regulations were liberalized to allow formation of U.S.-style building and loan associations and farmers unions, which are similar to cooperatives or credit unions and whose members' small investments are pooled to provide loans for individual and SME development.

Programs to substitute Kosovo products for imports began to bear fruit in 2007. With new association-designed standards for agricultural products and building materials in place, Kosovo goods were seen as being of higher and more reliable quality. These successes invited other industries to follow their examples. As a result, private-sector certification boards took the lead in standards development away from the government.

As the pool of funds for housing and other investments began to grow, Cadastral issues loomed large. As part of its fast-track agreement with the EU, in 2008 Serbia released the

Cadastral records to the Kosovo Cadastral Agency, which had participated in the World Bank's effort to reform the land records system by linking municipalities and the central government. By 2009, nearly 600,000 properties had been registered and business registrations were climbing along with tax revenues. With property ownership defined, successful farms and business consolidated. While this increased productivity and decreased prices, the economy benefited at the cost of higher unemployment in the short-term and heightened economic stress in urban centers.

With status defined, Kosovo was now being treated as a closer equal in an emerging regional economy, and businesses think regionally instead of just domestically. As an example, KEK, which KTA sold in 2006 along with lignite mining operations to a consortium of German and Swiss investors, dramatically upgraded its generating capacity by 2008. However, when Kosovars continued to avoid paying their bills, the consortium did not hesitate to sell electrical power to neighboring Macedonia and Montenegro to meet investment obligations, in spite of the fact that some of KEK's investors were part of the Kosovo Diaspora. By 2010, Kosovo was a major power exporter to the region. But many local businesses, unable to compete without pirated energy, failed and blamed KEK and PISG for their failures.

By 2009, foreign direct investment had displaced declining donor activity as the primary economic driver. With investment came much-needed European and American business practices, product standards and technology. However, the level of sophisticated skills and experience demanded by them were not widely available in the domestic labor market. In spite of a high unemployment rate, Kosovo was dependent on imported labor.

While the European community was not yet ready to grant full Schengen membership with its open borders, restrictions on immigration were eased, particularly in Germany and Switzerland with their large Diaspora communities, because of labor shortages in services sectors. The threat of a long-term skills deficit was eased by Diaspora organizations that funded scholarships for education of young Kosovars, particularly women and minorities, in Europe and the U.S. in return for agreements to work in Kosovo for five years after graduation.

Naturally, Western businesses demanded Western institutions, and the foreign takeover of the entire Kosovo investment banking sector was completed by 2008. These banks began offering sophisticated banking services, but only to higher-income, better customers. This created two classes of banking customers and a dichotomy in access to credit that rippled across the entire Kosovar society.

FEUDAL EMPIRES

Drivers: Status Unclear – Public-Sector Development

Announcement of the opening of status talks in the fall of 2005 was greeted initially with skepticism and posturing by nationalists in Kosovo and Serbia. Serbia's moves toward greater integration were seen as grudging steps to pacify the EU in hopes of obtaining membership, but without true commitment. This was caused primarily by the realization that the international community intended to move to final status with or without Serbia.

Therefore, Kosovo nationalists, who never believed in Serbia's good intentions in the first place, proclaimed that the only acceptable outcome was quick independence. Serbian nationalists continued to assert that Kosovo must remain part of Serbia to protect the interests and lives of those in the minority enclaves. Moderate leaders on both sides, however, sought a more balanced path. Yet, as the talks got underway, it appeared that the moderate voices had prevailed and there was a growing mood of optimism in Kosovo and watchful waiting in Serbia.

The Kosovo government, in an effort to prove its right to independent status, continued proposing myriad laws and regulations demanded by the Standards throughout 2005 and 2006. However the laws that were passed consolidated power and authority in the ministries and severely restricted the ability of private-sector firms and organizations to function independent of government oversight. Various measures stipulating how and by whom standards could be set were adopted along with rigid approaches to market behavior that were intended to offer consumers protection from poorly performing products. Increasingly, calls for protection coming from agricultural and industry producers caused the PISG to push for higher tariffs and quotas. Neighboring countries, intent on greater regional integration demanded by the Stability Pact, began to treat Kosovo as a marginalized junior partner not to be taken seriously in the emerging regional market.

The growing bureaucracy demanded by more activist government regulation strained an already tight budget to the breaking point and the ministries and parliament were in danger of shutting down. Without sufficient resources, cronyism, not rule of law, was driving enforcement, which put business at risk. Enforcement fell to local municipalities, which are controlled by various political parties, and businesses and government form alliances that are like feudal states. Business decisions are driven by political expediency not market needs.

With local politics driving delivery of services, KEK's attempts to collect its bills fell even further behind as municipal officials push for unhampered access to power regardless of ability or willingness to pay. Throughout Kosovo, the intervals of power outages became longer and more frequent, and businesses literally were functioning in the dark.

In an attempt to hold off bankruptcy, in 2006 the Kosovo government appealed to the International Monetary Fund for relief, but without clarity about status there were no IMF programs in which Kosovo could participate. With collapse imminent, UNMIK, which was

preparing to implement its exit strategy, called off plans to leave and put Kosovo into governance limbo without generous funding or transparency. Because neither the UN nor donors wanted to admit defeat, UNMIK began managing Kosovo as a shadow government behind the scenes in an attempt to keep status talks alive.

But there was a hard price for UNMIK's staying: insistence that Kosovo foot more of the bills by aggressively pursuing tax evasion. The escalating cost to business that resulted caused business development to stagnate. Entrepreneurs fled along with the best and brightest of Kosovo's labor force. The remaining economy became supported by traditional business – growing for unregulated green markets, restaurants, and basic manufacturing. Municipal political brokers actually resisted foreign direct investment, which they saw as a threat to their power.

Alarmed, donor organizations began to escalate pullbacks. USAID, pressured by continuing financial demands in Iraq and budget cutbacks, downsized to a skeleton staff by 2007. Failure of the proposed EU constitution to pass and rising worries about expansion among its charter members dampened the will of the federation to fuel Kosovo's increasing and seemingly endless needs and led to significant paring down of EBR involvement. The growing Kosovar middle class that was supported by donor project employment began to shrink leading to another Diaspora wave, this time of skilled technicians and managers.

It was increasingly evident that progress toward status resolution was bogged down. In fact, by early 2007, talks came to a complete halt. There was little optimism that they could be reenergized in the near term and weary negotiators went home to wait out the waning winter months.

By 2008, the trend toward increased foreign investment in banking had reversed leaving behind only remaining local banks, which lacked the resources and the management sophistication to undertake proper reform. Already tight access to credit became even more constrained. The foreign investment community, whose hopes had been raised by the beginning of status talks, turned its checkbooks toward Croatia, Bosnia-Herzegovina, Slovenia and the Baltic states where prospects seemed far brighter.

EYES EAST

Drivers: Status Unclear – Private-Sector Development

The euphoria generated by the historic meeting between the leaders of Kosovo and Serbia in the late summer of 2005 carried over into the start of status talks that fall. But the adage that “the devil is in the details” proved true. The willingness of Serbia to consider detachment from Kosovo was based on promises that cooperation would result in fast-track assimilation into the European Union. By the spring of 2006, the “too-far/too-fast” camp in the EU, still bristling from the 2004 expansion, was gaining the upper hand. The EU was already committed to Romania and Bulgaria, but they determined that their hands would be full with Turkey’s 2010 deadline for admission, which was set in 2004, but by 2006 appeared problematic. Consequently, the EU determined that any discussion about further expansion in the Balkans was off the table.

With the prospect of EU membership gone, Serbia backpedaled about Kosovo status in an effort to force the EU’s hand. Serbia’s Prime Minister Kostunica began repeating his 2005 slogan Kosovo: “more than autonomy, less than independence”. The population of the Serbian enclaves, weary of being used as pawns by both sides, declared that they were no longer going to pay taxes to both Kosovo and Serbia. They took a leaf from the Lake Ohrid Agreement by asserting municipal self-determination under the slogan Kosovar: “more than an Albanian/more than a Serb.” The United States, architect of the Lake Ohrid Agreement and always an advocate of decentralization, approved and supported the enclaves’ proposal. Neither Kosovo nor Serbia was happy about the moves, but they were stymied because the U.S., which promised to postpone planned reductions in donor activity in return for cooperation, had forced their hand. Now there were three players in the status game: Kosovo, Serbia and the energized enclaves, which stalemated the status talks.

At the same time that the status process stalled, Kosovo’s engines of government began to sputter from lack of funds. The 2006 budget was tight but the 2007 budget showed serious shortfalls and the potential of closing down all but the most essential government operations. With its attention diverted to survival, by late 2007 government legislative and regulatory efforts had ground to a halt. Given the choice between decentralization and privatization, the Kosovo government, in an attempt to retain control, pushed the predominantly Albanian private sector as a counter weight to the enclaves’ political grab.

With unprecedented freedom of action, private-sector associations plowed valiantly ahead and created standards for agricultural and construction products by mid 2006. They created quality seals and public relations programs touting them, but under the financially strapped Kosovo government, enforcement was problematic. In response, Kosovo associations, prodded by their membership, began to look regionally. By 2008, many Kosovo associations had aligned themselves with emerging southeast European organizations that had the resources to protect their brands. Searching for an accommodation, the PISG shifted its regulatory policy to a more open and transparent power sharing with the private sector

through these associations, which now had more resources than the government thanks to their regional coalitions.

Kosovo's economy became increasingly driven by specialized small and medium-sized enterprises that are links in a regional supply chain. Consequently, the private sector's trade policy turned almost 180 degrees. Instead of talking about protection and tariffs, they talk about access and deregulation because the term "domestic market" has less and less meaning.

With increasing regionalization KEK joins the Southeastern European Electrical Power Association (SEEPA) and shuts down outdated Station B and increases Kosovo's dependence on imported electricity. With financing from foreign investors and regional energy companies, KEK expanded lignite operations at the Bardh and Mirash mines to increase capacity to 17 million tons per year to serve more efficient power generation elsewhere in the regional grid. Because SEEPA has no qualms of disconnecting delinquent customers in Kosovo coupled with the high price of imported electricity, large- and medium-sized manufacturers begin investing in local hydro- and wind-power generators both for their own use and to sell to neighboring businesses, creating pockets of uninterrupted energy in Kosovo for smaller businesses as well as encourages the emergence of an alternative energy sector.

Western-educated members of the 1990s Diaspora began returning to Kosovo by 2007 to provide business and technology skills required to manage the regional links. Better trained than local Kosovars, they captured the best jobs and started successful businesses. Soon there was a widening disparity between the fortunes of these "foreigners" and the local population, which seethed in resentment over continuing high unemployment.

In the burgeoning regional environment, Raiffaisen Bank and ProCredit had a natural advantage because of their reach throughout Europe. In order to compete, in 2007, Kasabank formed an alliance with the Tutunska Banka in Macedonia and Nova Ljubljanska Banka in Montenegro. By 2009, banking and finance practices in the region had been harmonized.

While Brussels was employing its slow-growth strategy that put Balkan admissions on hold, businesses in the Balkans realized that they were incubating standards of their own and on their own. Seeing an untapped opportunity, they turned their eyes east toward North Africa and Asia Minor, two of the fastest-growing local markets in the world. While the regional standards that businesses and their associations created were not EU standards, they were perfectly appropriate for these two hot markets whose consumers could not afford European products produced to EU requirements. This enabled the Balkan regional groups to act as conduits for EU companies that desperately wanted access to these markets and were happy to produce products to the regional standards for them. By 2007, European firms were investing in the Balkan region, including Kosovo, not in order to impose EU standards but to avoid them.

The level of investment flowing into the region created an ideal environment for USAID's Global Development Activity (GDA) strategy, which emphasizes public-private partnerships

as opposed to direct donor activity. By 2008, the EAR had pulled back and UNMIK had been rendered irrelevant and had exited. By 2010, Kosovo had become to the Balkans what Singapore is to Asia, a facilitator of business development and growth.

ANNEX II

Field Interviews List

Kosovo Chamber of Commerce (Ismail Kastrati, President; Basri Jupolli, General Secretary)

USAID – Ken Yamashita, Mission Director; Tim Hammann, Private Sector Advisor; Flora Arifi, Development Program Specialist

European Agency for Reconstruction – Annemarie Jepsen, Program Manager; Mike Mann, Team Leader; Ulrich Schroeder, International Legal Expert

Kosovo Bankers Association – Anthony Bendien, Team Leader

Ministry of Agriculture – Peter Oldham, Policy Advisor; Tim Hammond, Farm Business Management Expert; Walter de Oliveira, Team Leader

Kosovo Trust Agency (KTA) – Daniel Themen, Head of Agriculture & Forestry; Veton Hajdini, Data Analyst; Kirk Adams, Deputy Director of Privatization; Karl Bach, Corporate Governance Lawyer

Association of Kosovo Business Women (Kosova Business Women's Network) – Mirlinda Kusari, Senior Advisor

Intercooperation – Facton Nagavci, Co-Team Leader and Neil Parker, Chief Technical Adviser

Association of Private Entrepreneurs (Mitrovica)

PIRAMIDA (Mitrovica)

KONI – Agim Sahiti, President (egg producer)

UNMIK Economic Policy Office (Pillar IV) – Judith Safar, Legal Council and staff members

UNDP – Levent Koro, National Program Analyst, Valeria Patruno, Democratic Governance Program Officer

Ministry of Economy and Finance – Sefedin Sefaj, Permanent Secretary

UNMIK Economic Policy Office (Pillar IV) – Orhan Niksic, Economic Policy Advisor

Doug Todd – Economic Advisory to the Prime Minister

Ministry of Trade and Industry – Sali Iishi, Senior Political Advisor; Blerim Burjani, Political Advisor

World Bank – Vito Intini, Project Officer, Private Sector Development

GTZ – Peter Welling, Project Manager, Economy and Employment Protection

ANNEX III

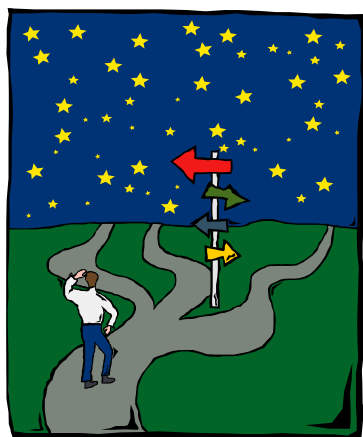
Workshop Presentation

Alternative Future Scenarios



**A Process for Looking at
and Working in the
Future without Risk**

The Future Goes in All Directions from Today



Alternative Future Scenarios Can Give Us Direction

- They provide
 - A more thorough understanding of the dynamics of change
 - Better consideration of the full range of opportunities and threats
 - Reduced vulnerability to surprises
 - More resilient, flexible strategy
 - Better assessment of risk



What Are Scenarios?



- Stories about the future at a particular point in time
- Based on trends not fully formed
- Told from the future looking back to the present

What Scenarios Are NOT



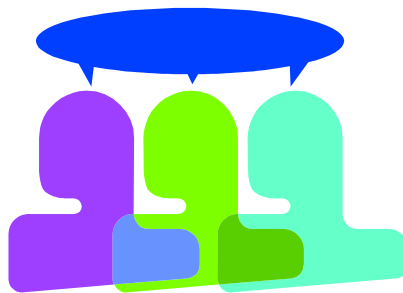
Predictions



Forecasts

How Are Scenarios Created?

- Through research to identify drivers of change
- By choosing two drivers of change that influence each other
- Drivers of change have opposite poles



Scenario Principles



- Scenario stories must be *possible*, but they do not have to be *probable*

Scenario Principles



- Scenario planners must suspend their disbelief when stories challenge their current thinking



Potential Kosovo Scenario Drivers

■ Society

- Minority rights protected/minority rights lacking
- Diaspora escalates/Diaspora returns
- Ethnic tensions increase/ethnic tensions decrease
- Birthrate escalates/birthrate stabilizes
- Corruption declines/corruption increases
- Vocational education advances/vocational education lags
- Peace/conflict



Potential Kosovo Scenario Drivers

■ Technology

- Energy infrastructure is rehabilitated/
energy infrastructure crumbles
- Product and practice standards developed
and protected/standards never achieved



Potential Kosovo Scenario Drivers

■ Economics

- Regionalization stalls/regionalization becomes reality
- Special trade status/EU admission
- Unemployment below 35%/unemployment above 35%
- Economic self-sufficiency/economic dependence
- Tax collections rise/tax collections stagnate
- Internal financing/external financing
- Donor-driven development/investor-driven development
- Diaspora invests/Diaspora fades away
- Privatization is expeditious/privatization drags on



Potential Kosovo Scenario Drivers

■ Politics

- Independence/protectorate
- UNMIK/EUMIK
- PISG is functional/PISG is nonfunctional
- Serbia retains Kosovo/Serbia relinquishes Kosovo
- Property rights resolved/property rights murky
- Rule of law prevails/rule of law fails
- Court system is functional/court system is nonfunctional



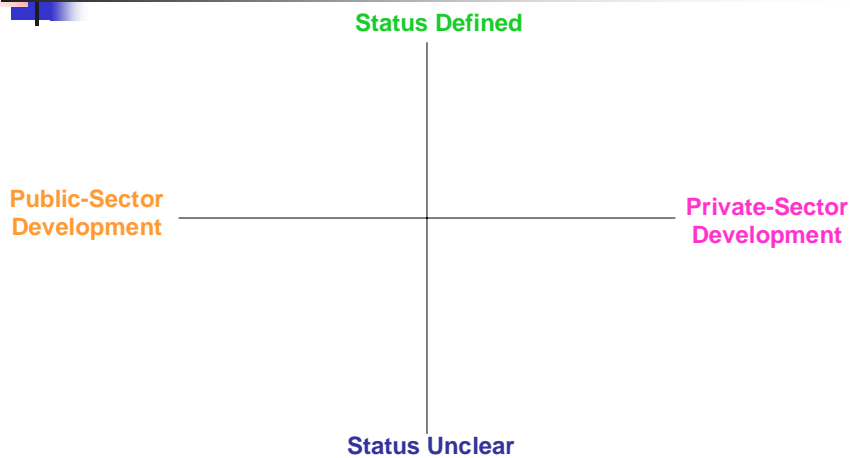
How the Final Drivers Were Chosen?

Structure → Conduct → Performance

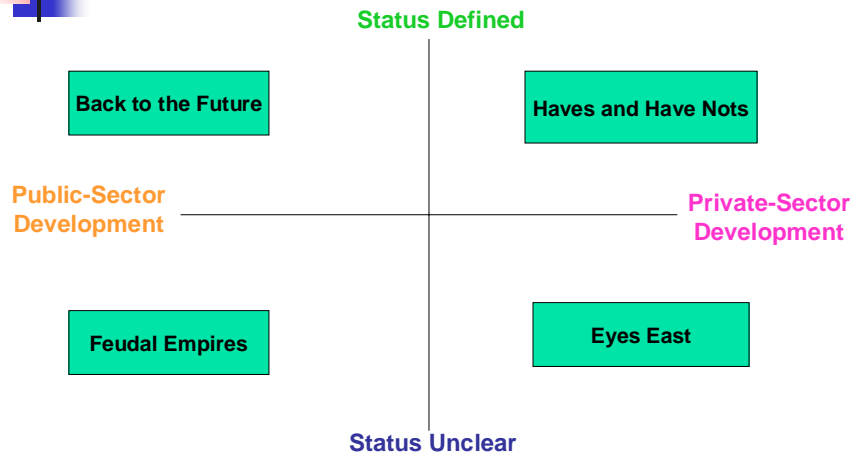
Organizational structures guide conduct,
which determines performance



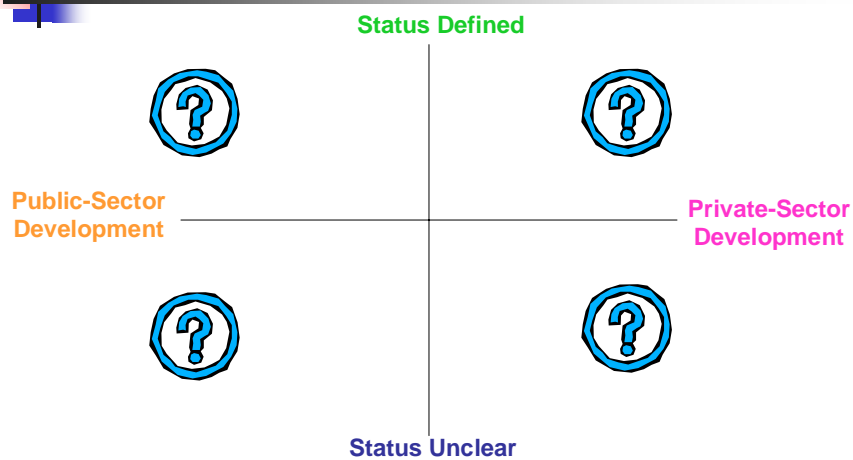
Kosovo Scenario Drivers



Kosovo Scenario Stories



We Will Use the Scenarios to Answer Questions about the Business Environment





Those Questions Are...

- What consumer and business markets emerge in each future?
- What kinds of businesses will evolve to serve those markets?
 - Large or small? Traditional industries or new kinds of ventures? Locally financed or internationally supported?
- What kinds of infrastructure support will these businesses need?
 - From the government? From the private sector? From the nonprofit sector?



Those Questions Are...

- What new problems begin to emerge that we currently do not face?
- How should those problems be addressed?
- What kinds of strategies can be developed to encourage positive developments and head off negative ones?
 - Can those strategies work in more than one scenario?

ANNEX IV

SUMMARY OF WORKING GROUP DISCUSSIONS

Back to the Future

Key problems

- We have a domestic and regional market (not global and EU)
- Consumer-based economy
- Large, monopolistic companies sanctioned by centralized government
- Black market
- Finances are difficult
- Few solutions to criminal activities from government

Who prevails? Local businesses

- Agriculture
- Wood processing
- Road construction
- Development of winter tourism

What are the obstacles?

- Lack of strategic plans for a favorable economy
- Lack of competition for public services
- Tax problems – government has to set taxes for electricity, which damages business development

What are the motivators?

- Education of youth (IT)
- Common regional practices

Haves and Have Nots

Markets

- Strong local companies 80% (transportation, recreation, vertical parking facilities, private education, powerful banking system)
- Service companies serving international clients 20%

Who prevails? Small and Medium Enterprises

- Agriculture
- Metal and wood processing
- Education
- Health
- Parking
- Environmental protection

What are the obstacles?

- Lack of capital
- Regional competition in wood processing and services
- European and eastern competition
- Technology

What are the motivators?

- Knowledge gained abroad will return to Kosovo

Eyes East

Who prevails?

- Agribusiness, construction material, intellectual and IT services, mines and minerals (energy oriented)

Where investments come from?

- Diaspora and regional investments

What are the obstacles?

- Weak financial ability
- Road infrastructure
- High competition
- Informal economy

What are the motivators?

- Young educated and professional generation
- Lower production standards than EU
- Unexploited resources
- Geographically strategic position

Which will be priority businesses?

- Small and medium

Losers and winners

- Public sector (loser)
- Private sector (winners)
- Inflexible sectors (losers)

Feudal Empires

Key problems

- Grey economy develops
- Main activities will be in services and trade sectors (no or little manufacturing)
- Corruption and smuggling will be evident
- No middle class

Who prevails?

- Services
- Trade sector with low production
- Mainly local markets (no regional integration into regional markets – just importation of products)
 - But what kinds of products and buyers?

What are the obstacles?

- Corruption reigns
- No new businesses; foreign businesses do not invest. Informal business will benefit from this situation

- Private business will be developed in an informal sense and function only in close relation to local governments

Losers

- Private sector, banking system, citizens in general

Winners

- Informal sector, monopolists, government officials, companies exporting to Kosovo
- Governmental officers

Constraints

- Local businesses are not competitive with regional businesses, don't meet product standards, can't export
- Lack of law enforcement
- No new ventures, no start-ups, no foreign investments, no economic cooperation
- Laws that regulate business environment are not harmonized and don't respond to business needs
- Brain drain is the main problem because there is no middle class

COMMON ELEMENTS TO ALL FOUR SCENARIOS

- Agriculture and agribusiness occur in Back to the Future, Haves and Have Nots and Eyes East
- Road construction and construction materials occur in Back to the Future and Eyes East
- Local companies occur in all scenarios
- Regional companies occur in Back to the Future and Eyes East

ANNEX V

COMMON THEMES

TO BE ADDRESSED IN 100 DAYS

- **Education/Human Resources Development**
 - Basic education
 - Skills training
- **Redefining the role of Public, Private, and Civil Society sectors**
 - Generation of economic growth and employment
 - *Tax rationalization*
 - *Quality standards and systems* (metrology, accreditation)
 - *Assuring stability of the banking and financial sectors*
 - Funding guarantees
 - *Infrastructure development*
 - IT, communications
 - Transportation
 - Energy
- **Transparency/rule of law/court reform**
 - Protection of property rights
 - Protection of intellectual property rights
 - Protection of financial investments
 - Penalizing corruption

In addition the Conference identified three other issues that, while important, were determined to be beyond the ability of the Private Public Dialog to address in 100 days.

They were:

- **Regionalization/Cooperation**
 - Harmonization (product standards, fiscal policy, etc., customs/tariffs)
 - Integration (duty-free zones, customs unions, non-tariff barrier reduction)
 -
 - **Europeanization**
 - **Political stability** (socio-political environment that is business friendly)
 - Security
 - De-enclavization (integration, harmonization of businesses across Kosovo)
-